Rate trends continue to favor long-term commitments

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These can't be easy times for senior housing/healthcare borrowers hoping to get a better handle on how current Federal Reserve Board monetary policies will impact long-term interest rates in the months ahead. "At this time, Federal Reserve Board policies appear to be driven by a logic that says, when in doubt, it's best to leave well enough alone," says funding expert Jeffrey A. Davis. Jeffrey A. Davis, Chairman of Cambridge Realty Capital Companies "The Fed is attempting to engineer a soft landing for an economy that is being battered by turbulent financial markets, a slumping housing industry and stubborn inflation. Normally, the central bank might be expected to respond to spreading economic weakness by cutting interest rates, but price pressures remain a problem as well at both wholesale and retail levels," he said.Davis is Chairman of Cambridge Realty Capital Companies, one of the nation's leading senior housing/healthcare lenders with more than $1.75 billion in closed funding transactions since the mid-1990s. He points out that, at the most recent meeting of the Fed's Open Market Committee, members were expected to leave the benchmark Federal funds rate unchanged at 5.25 percent and didn't disappoint. "Unless the economy weakens more than currently expected, that's where its likely to remain for the foreseeable future," he believes. So where does all this leave borrowers? Davis thinks borrowers have stumbled into a buyer's market, with long-term rates remaining lower than expected "given all the economic uncertainties that are out there." He points out that popular HUD loans tend to mirror what's happening with 10-year Treasury notes. Conventional loans more typically are keyed to the Prime rate or to the London Inter-Bank Offered Rate (LIBOR) index. Over the past seven months, the Prime rate banks charge preferred customers has been frozen at 8.5 percent, while 10-year Treasuries and the LIBOR index have remained substantially lower. Between February and March, yields on 10-year Treasuries were down from 4.83 percent to 4.70 percent, while the 1-month LIBOR rate was unchanged at 5.32 percent."Given the way things have been unfolding in the current cycle, what borrowers need to keep in mind is that long- and short-term rates have been behaving like marionettes dancing on different strings. Even if the Fed were to begin a dramatic series of cuts in the Federal fund rate when the committee meets again in May, there may not be a corresponding drop in long-term bond yields -- or in the interest rate for FHA-insured HUD loans. "At some point in the future the inverted yield curve currently in place in the capital markets will return to a more normal distribution. In the meantime, borrowers are well advised to strategically avoid short-term loans and to move into long-term commitments when possible to take advantage of today's favorable rates," he said.